

TOWN ADMINISTRATOR
FISCAL YEAR 2009 BUDGET MESSAGE

January 7, 2008

To the Honorable Board of Selectmen and the Residents of Natick it is with honor I submit the Town Administrator's Fiscal Year 2009 Budget.

The Fiscal Year 2009 Operating Budget presents significant challenges. Based on current revenue and expenditure forecasts, a FY 09 "level service" operating budget, including just minimal capital spending, results in a projected funding shortfall of approximately \$2.78 million (See Appendix C). A Proposition 2 ½ Override has been recommended by the Financial Planning Committee to meet this shortfall.

The Fiscal Year 2009 Budget was developed with a set of revenue assumptions that are similar to previous fiscal years. We anticipate modest increases in State Aid and fairly sizable increases in property taxes (driven largely by the Natick Collection retail development) but a decrease in Local Receipts (largely due to a reduction in the projected use of Free Cash and Overlay Surplus, but also due to a projected decrease in Estimated Receipts).

On the expense side, the general government operating budget is characterized as a level service budget in that it provides no new personnel and no new services. In certain areas, however – notably public safety – it could be argued that existing personnel levels are inadequate to maintain existing service levels. Personnel levels in the Police and Fire Departments are comparable to those of the late 1980s, yet the community's growth in residential and business development would suggest that additional personnel may be warranted. These are not the only municipal departments challenged to meet the service needs of the community; the demands placed upon the human services, community development and other departments often outpace the staff capacity necessary to provide exemplary service. A 2.05% increase in general government department budgets is projected; including the budget for General Government Energy the increase is 2.27%.

For several years, new revenues have not kept pace with increasing costs. Natick has navigated this trend by using sources of revenues that are not considered to be recurring, primarily Stabilization Fund, Overlay Surplus and Free Cash. In addition, all town operations have been examined for savings and reductions. It is a testimony to the organization's flexibility, creativity and the willingness on the part of our employees to participate in the preservation of services for the public in this time of diminished resources.

REVENUE SUMMARY:

The Property Tax Levy is increased by the statutory limits as set by Proposition 2½ - \$3.4 million. This is a notable increase over the FY 2008 increase of \$2.1 million. Approximately \$1 million in additional property tax revenue was received during FY 2008 for the retail portion of the Natick Collection; this is built into the base property tax

projections for FY 2009. An additional \$750,000 in property tax revenue is projected in FY 2009 for the condominium development associated with the Natick Collection.

New Growth is estimated at \$639,851, lower than FY 08's new growth figure of \$883,000.

The Debt Exclusion for the Wilson Middle School is \$937,705 reflecting the annual debt costs associated with the project. This amount is \$22,569 less than in FY08 and significantly less than originally projected in large part due to lower interest rates and conservative forecasting practices.

State Aid is projected to increase by 4.6% (\$564,770). For comparison purposes, the FY 2008 increase was 3.4%. While the FY 09 projections reflect a modest increase in state aid, we are just now returning to the levels of State Aid we received in FY 2002. Considering inflation, we are still well below FY 2002 State Aid levels.

Estimated Receipts (building permit fees, license applications, and similar revenues sources) are projected at \$11.37 million, a decrease of \$146,038 over FY 08 levels. Since FY 07, estimated receipts have been driven largely by the Natick Mall expansion project; we are conducting an audit of these multiple and complex permit applications to ensure that all applicable fees have been captured.

Free Cash usage is projected at \$3 million. This will leave a free cash balance of \$881,263.

Stabilization Fund usage is projected at \$600,000, leaving a balance of approximately \$2.6 million. Usage in FY 07 was \$400,000; in FY 08 we used \$256,102.

Overlay Surplus – funds that are available after all abatement applications for multiple tax years have been processed – were used in FY 08 in the amount of \$1,116,024. No Overlay Surplus is available for FY 09.

Overall, revenue has increased modestly from its FY 08 level of \$99,119,183. FY 09 revenues are projected at \$99,777,788. This represents an increase of \$658,606 or just 0.7%.

EXPENDITURE SUMMARY:

As we began preparing the FY 09 budget it was communicated to all departments that based on revenue projections and anticipated increases in other expenses (such as energy and insurance), departments would be held to a 3% increase in operating budgets. As will be discussed further in this report, given union contractual obligations, not all departments were able to stay within the 3% cap. Overall, however, general government operating budgets increased just \$597,171 or 2.27%. This modest increase in overall departmental budgets is due to a number of factors, the most significant of which are (1) reduced "tipping" fees for disposal of our municipal solid waste and (2) elimination of the Neighborhood Bus budget.

The School Department has requested a 5% increase in their budget. This increase of \$2,046,401 is included in the overall budget presented herein – the budget that results in a projected \$2.7 million shortfall.

Listed below are other expenditure activities of note:

- The Neighborhood Bus budget has been deleted in its entirety. We have made an assumption that the Board of Selectmen will vote to shift this service to the Metrowest Regional Transit Authority. The Board should consider this opportunity in the near future and, if such a vote does not occur, we will adjust the budget accordingly.
- General Government Energy costs were isolated into a singular budget in FY 08 to facilitate better transparency in this volatile cost center. As a separate budget, we will also be better able to identify and track long-term trends. An increase of \$85,854 or 6.5% is projected in energy costs.
- The property and liability insurance portion of the budget has been increased by 8% or \$36,750. The Employee Fringe budget has been increased by 7.24% or \$915,309. The Employee Fringe budget includes the Towns portion of employee health insurance, workers' compensation, Police and Fire 111F coverage (their equivalent of workers' compensation), FICA, and reserve funds for employee retirements and employee benefits. The increase within this budget attributable to health insurance reflects a projected savings of \$600,000 due to Town Meeting's acceptance of MGL Chapter 32B, section 18, which stipulates that Medicare-eligible retirees must enroll in Medicare and a town-sponsored Medicare supplement program.
- We are funding a \$300,000 supplement for this winter's snow removal activity. This projected expense will continue to be monitored throughout the winter and will be adjusted as needed.
- The Debt Service appropriation increases modestly from \$7,239,698 million in FY 08 to \$7,269,978 million in FY 09.
- The Contributory Retirement System's appropriation increases by 4.5% or \$235,148 as required by PERAC, the state agency that regulates the retirement funding schedule.
- Within the Contributory Retirement Budget is an appropriation to fund municipal employee early retirements approved approximately 15 years ago. The final payment for these early retirements (\$431,861) is being made in the current (FY 08) fiscal year. This budget proposes a comparable appropriation (\$450,000) to begin to fund the Town's "other post-employment benefit" (OPEB) obligation. The Government Accounting Standards Bureau (GASB) is requiring all

municipalities to identify their OPEB obligations by 2010. The OPEB obligations are primarily the health care costs for retirees; we are currently soliciting quotations from actuarial consultants to accurately estimate Natick's OPEB liability. While GASB has not, as of yet, required municipalities to fund their OPEB obligations, such a mandate is inevitable. The liability will be significant – millions of dollars – and accordingly many municipalities have already initiated their efforts to fund the obligation.

- We have moved the function of Benefits Administration under the Personnel Director within the Selectmen's budget. This function (one full time individual) was previously under the Collector/Treasurer budget but functionally under the supervision of the Comptroller. This is truly a personnel function so is far more appropriate under the Personnel Director.
- Similarly, a part-time person currently under the Comptroller's budget and supervision is being moved to the Collector/Treasurer's budget and supervision. The primary function of this clerical position is to balance the so-called Concentration Account (which funds workers' compensation, payroll and vendor payments) and to disburse checks. It is much more appropriate from a "checks and balances" perspective to have these functions not take place in the same department that is issuing the checks.
- Within the Department of Public Works, some items are worth noting, including
 - In the Building Maintenance Division, we have created a new position for a painter/handyman. All painting operations have been deleted from the capital plan accordingly, with the exception of exterior painting at the Eliot School, which involves significant heights and lead paint. A cost/benefit analysis prepared by the DPW will serve to justify this request.
 - Within the Engineering Division, we have level funded the line item for Stormwater Management, but DEP is expected to issue new mandates in May; our required response to these mandates may necessitate additional funding.
 - Within the Highway/Sanitation Division, the budget reflects savings due to reduced tipping fees associated with disposal of solid waste. The new rates are effective March 1, 2009 and a savings of \$122,509 is reflected in the budget.
 - Also within the Highway/Sanitation Division we have put the \$50,000 match for the Chapter 90 funds back in the Operating Budget. There seems to have been some debate in recent years as to whether this is an operational or capital expense, as the funds have moved back and forth between the two budgets. The Finance Director and I are in agreement that this is an operational expense; the funds have been deleted from the capital budget.
 - An anticipated increase of \$8000 in the cost of the Pay-As-You-Throw bags is reflected in the Highway/Sanitation Division budget.

- During recent Finance Committee deliberations regarding the proposed purchase of two pieces of equipment for the Land, Facilities and Natural Resources, specifically a stump grinder and core aerator, it was suggested that we consider outsourcing these services. Accordingly, we have proposed an increase of \$25,000 in the tree service contract and an increase of \$5000 in the mowing contract (of which \$4500 is attributable to outsourcing the aeration service). We will conduct a cost benefit analysis of this approach and report the findings. In a related matter, we recently cancelled the mowing contract due to a breach of its terms by the contractor; we will have to re-bid this service.
- The street lighting maintenance contract is due to be re-bid for FY 09; bids are due in early March. The budget will be adjusted if necessary.
- The Board of Health budget includes funding for a Health Inspector; this funding was approved for the FY 08 budget but the position was never filled. Funding is included in the budget for this position but it will not be filled unless and until additional revenues (i.e. a Proposition 2 ½ Override) are identified.
- Capital Spending: The proposed FY 09 budget has just \$350,000 allocated for capital spending. The specific capital needs to be prioritized will be detailed in a separate memo outlining the capital spending plan. This capital allocation is dramatically lower than what is necessary to adequately address our capital needs and represents yet another in a series of years in which our capital spending is inadequate. It is critical that a strategy be developed to reverse this trend and adequately fund maintenance of the community's infrastructure.
- As noted earlier, within some government functions, it could be argued that existing personnel levels are inadequate to maintain existing service levels. This too is a critical issue that must be fully analyzed over the coming months. The Police and Fire Departments are developing data in support of their position that additional personnel are justified and necessary to meet the community's public safety demands. This information will inform our future discussions.

The prior Town Administrator's initial proposal for the current year's (FY 08) budget did not include the level of funding requested by the School Department, instead he recommended consideration of a Proposition 2 ½ Override to meet the School Department needs. However, through the Finance Committee review process, the use of additional reserves and one-time revenues was recommended, thus avoiding a Proposition 2½ Override to balance the FY 08 budget. In making this recommendation, however, the Finance Committee was clear that the strategy of using extensive reserves and one-time revenues could not be sustained, and that the community will face difficult decisions in FY 09 and beyond regarding the need for substantial additional revenues through a Proposition 2½ Override if existing service levels are to be maintained. Those difficult decisions are upon us now and must be faced in order to balance the FY 09 budget which, as noted earlier, exceeds projected revenues by approximately \$2.78 million.

The cost to operate existing municipal services simply exceeds available revenues. Natick is faced with the choice of reducing expenses to live within available revenues (i.e. reduce or eliminate services, personnel and programs) or generate substantial new recurring revenue in support of services (i.e. a Proposition 2½ Override).

The Financial Planning Committee has voted unanimously to recommend a Proposition 2½ Override and specifically indicated that, in order to preserve Natick's existing services and infrastructure, an Override in the range of \$5.5 to \$6.5 million should be considered. This number reflects the Committee's commitment to the capital needs of the Town; the intent is that the funding would be used not only to address the operating budget shortfall but to fund a significant backlog of capital needs.

The prior Town Administrator, in his January 2007 budget message, advised that "In order to continue the current level of services we will need to seek additional revenue sources in FY09. If that is not requested or approved by the citizenry then we must plan to strategically downsize our operations. We have a very short period of time to determine what is at risk and to educate the general public as to their choices. We must utilize the next year to make some decisions regarding the level of services this government will offer the citizens of Natick."

As a member of the Financial Planning Committee and as the Town's Chief Financial Officer, I also recommend that a Proposition 2 ½ Override be presented to the voters. Absent an Override, significant cuts to personnel, programs and services will be necessary within the general government and school budgets. Within the general government, all departments and functions will be reviewed for possible budget reductions. But many governmental services are mandated and are administered by departments with just a handful of people, making personnel reductions virtually impossible. Other departments are already significantly challenged to provide adequate levels of service, as noted earlier. Therefore, it appears that budgetary cuts would likely be focused on departments such as Council on Aging, Libraries, Recreation and Parks, and Public Works. Depending on the extent of the cuts, however, we may not be able to avoid reductions in the Police and Fire departments. Again, no department will be immune and each will be reviewed carefully.

Our challenges over the coming months are many. It is essential that we look to programs and services to ensure that efficiency and cost-effectiveness are the standards throughout (See Appendix E). We must continuously refine projections for expenditures and revenues for the coming years as information becomes available to ensure accuracy in our financial forecasting. And we must educate the public about the budgeting process and the short and long-term financial challenges faced by the community.

I look forward to discussing this with the Board of Selectmen and providing the information they deem necessary to determine whether to present a Proposition 2½ Override. Should an Override be put forward to the voters, the department heads and I will do all we can to facilitate informed dialogue and debate on this important issue.

Sincerely,

Martha L. White
Town Administrator

List of Appendices:

- Appendix A Definitions of Key Terms
- Appendix B Discussion Regarding Municipal Reserves
- Appendix C Revenue/Expenditure Forecast showing FY 2009 projected shortfall
- Appendix D Summary of Departmental Budgets
- Appendix E Discussion of past and projected opportunities for improved efficiencies and cost effectiveness within the government operations

DEFINITIONS OF KEY TERMS₁*Overlay Reserve*

An account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes in that year. The overlay reserve is not established by the normal appropriation process, but rather is raised on the tax rate recapitulation sheet.

Overlay Surplus

Any balance in the overlay account of a given year in excess of the amount remaining to be collected or abated can be transferred into this account. Within ten days of a written request by the chief executive officer of a city or town, the assessors must provide a certification of the excess amount of overlay available to transfer. Overlay surplus may be appropriated for any lawful purpose. At the end of each fiscal year, unused overlay surplus is "closed" to surplus revenue; in other words, it becomes a part of free cash.

Stabilization Fund

A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money from the stabilization fund.

Free Cash

Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts.

₁ Source: Department of Revenue Division of Local Services Municipal Finance Glossary

DISCUSSION REGARDING MUNICIPAL RESERVES

Overlay Surplus:

The FY 08 budget used virtually all Overlay Surplus funds. Within each year's budget an Overlay Reserve account is established. The purpose of this account, which is under the control of the Board of Assessors, is to fund property tax abatements and exemptions that may be granted in a particular fiscal year. Each fiscal year has an associated Overlay Reserve account; once all exemption and abatement requests for a particular fiscal year have been resolved or can be reliably predicted, the funds remaining in the Overlay Reserve may be declared by the Assessors as Overlay Surplus. Typically the Overlay Surplus is released incrementally, and is often used to fund Capital or other one-time expenses. For FY 2008, the Assessors were asked to and did release all potential Overlay Surplus from FY 2006 and all earlier years, thus limiting this funding source in future years until the reserve is replenished. It is anticipated that some Overlay Surplus may be available in FY 2010.

Stabilization Fund:

The Stabilization Fund current balance is \$3.2 million with \$600,000 proposed to be used to balance the FY 09 budget. The National Advisory Council on State and Local Budgeting recommends that Stabilization Funds be used to address temporary cash flow shortages, emergencies, unanticipated economic downturns, and one-time opportunities. A prudent level of financial resources is recommended to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures. Thus, Natick appropriately used Stabilization Funds in response to what was hoped to be a temporary downturn in state aid, but the persistent and ongoing use of these funds is contrary to recommended practice. Many communities have established a target of 5% of general fund revenues for the Stabilization Fund; this target would suggest maintaining a balance of just over \$5.5 million.

Free Cash:

Free Cash is cyclical, as a new amount is certified by the Department of Revenue each year based upon remaining funds from operations of the previous fiscal year and actual receipts in excess of revenue estimates, with offsets applied such as unpaid property taxes and certain deficits, all as based on the Town's balance sheet as of June 30. That is, Free Cash is, to some extent, replenished at the end of each fiscal year, but the extent cannot be accurately predicted until the subject fiscal year is "closed out." The MA Department of Revenue recommends that "A community should maintain a free cash balance to provide a hedge against unforeseen expenditures and to ensure there will be an adequate reserve to prevent sharp fluctuations in the tax rate. Maintenance of an adequate free cash level is not a luxury but a necessary component of sound local fiscal management. Credit rating agencies and other members of the financial community expect municipalities to maintain free cash reserves and make judgments regarding a community's fiscal stability, in part, on the basis of free cash." One unofficial target for unappropriated Free Cash (the balance remaining after all appropriations are made from the fund during the fiscal year) is that it should not go below 1/2% of general fund revenues, or approximately \$551,000 for Natick.

REVENUE/EXPENDITURE FORECAST
LEVEL SERVICE BUDGET
(Operating Budgets Exclusive of Enterprise Funds)

Revenue Summary	FY07 Actual	FY08 ATM Budget	FY09 PROJECTED	FY10 PROJECTED
Real Estate/Property Taxes				
Base Tax Levy	59,682,611	61,821,370	65,249,905	68,271,003
Statutory 2 1/2 Increase	1,492,065	1,545,534	1,631,248	1,706,775
Proposition 2 1/2 Override				
Growth in Tax Base	646,694	883,000	639,851	744,996
Natick Collection Projected Tax		1,000,000	750,000	500,000
Debt Exclusion Override	1,031,410	960,274	937,705	918,361
Total Tax Levy	62,852,780	66,210,179	69,208,708	72,141,135
Intergovernmental Resources (State Aid)				
Education Items	5,230,308	5,548,696	6,103,566	6,713,922
SBA Reimbursement Existing Projects	1,369,707	1,369,707	1,166,044	1,166,044
General Government Items	5,243,065	5,339,074	5,552,637	5,774,742
Projected Net State Aid	11,843,080	12,257,477	12,822,247	13,654,709
Local Receipts				
Estimated Receipts	13,379,848	11,518,725	11,372,687	11,456,367
Intergovernmental Transfer	2,350,634	2,379,592	2,450,980	2,524,509
Available Funds (Free Cash)	4,563,719	5,057,917	3,000,000	3,000,000
Stabilization Fund	400,000	256,102	600,000	600,000
Overlay Surplus	500,000	1,116,024	-	500,000
Other Available Funds	323,167	323,167	323,167	323,167
	21,517,368	20,651,527	17,746,834	18,404,044
TOTAL RECEIPTS	96,213,228	99,119,183	99,777,788	104,199,887
Expenditure Summary	FY07 Actual	FY08 ATM Budget	FY09 PROJECTED	FY10 PROJECTED
General Government Budget	25,395,213	24,955,176	25,466,493	26,230,488
School Budget	37,412,534	40,928,029	42,974,430	45,123,152
Keefe Tech Assessment	1,112,981	1,204,965	1,241,114	1,278,347
School BusTransportation subsidy	195,322	302,122	302,122	311,186
Insurance/Employee Fringe	11,474,218	12,634,283	13,549,592	15,175,543
Property/Liability Insurance	394,977	459,400	496,150	520,958
Contrib. Retirement	4,792,830	4,822,418	5,039,427	5,266,201
ERI/OPEB		431,861	450,000	470,250
Non-Contrib. Retirement	138,266	145,109	128,082	115,274
General Gov't Energy		1,320,830	1,406,684	1,448,883
Debt & Interest	7,275,136	7,239,698	7,269,978	7,020,804
Debt/Additional Capital				413,116
Reserve Fund	250,000	300,000	300,000	300,000
Capital Improvements	618,955	1,122,250	350,000	350,000
	89,060,432	95,866,141	98,974,072	104,024,202
Other				
State & County Assessments	1,639,732	1,643,654	1,709,400	1,777,776
Cherry Sheet Offsets	62,917	66,398	69,054	71,816
Tax Title	5,000	25,000	25,000	25,000
Overlay	1,240,811	1,003,910	1,107,339	1,154,258
Snow Removal Supplement	299,371	201,261	300,000	325,000
Golf Course Deficit	430,000	355,000	375,000	375,000
	3,677,831	3,295,223	3,585,793	3,728,850
TOTAL EXPENDITURES	92,738,263	99,161,364	102,559,866	107,753,052
NET EXCESS / (DEFICIT)	3,474,965	(42,181)	(2,782,078)	(3,553,165)

Town of Natick
Fiscal Year 2009 Preliminary Budget Summary

	FY2009 Tn Adm Recommended	FY 2008 Appropriated	FY09 REQUEST - FY08 APPRO	
			\$ Change	% Change
			FY2009 - FY2008	
<u>Public Education:</u>				
Natick Public Schools	\$ 42,974,430	\$ 40,928,029	\$ 2,046,401	5.00%
So Mdsx Regional Voke	\$ 1,241,114	\$ 1,204,968	\$ 36,146	3.00%
Sub-Total Education	\$ 44,215,544	\$ 42,132,997	\$ 2,082,547	4.94%
<u>Public Safety:</u>				
Fire Department	\$ 6,430,440	\$ 6,157,245	\$ 273,195	4.44%
Police Department	\$ 5,391,303	\$ 5,184,555	\$ 206,748	3.99%
Sub-Total Public Safety	\$ 11,821,743	\$ 11,341,800	\$ 479,943	4.23%
<u>Public Works:</u>				
Building Maintenance	\$ 824,527	\$ 793,068	\$ 31,459	3.97%
Administration	\$ 330,389	\$ 322,258	\$ 8,131	2.52%
Engineering	\$ 392,175	\$ 381,315	\$ 10,860	2.85%
Equipment Maintenance	\$ 756,816	\$ 729,399	\$ 27,417	3.76%
Highway/Santitation/Recycling	\$ 2,993,268	\$ 3,034,049	\$ (40,781)	-1.34%
Land Facilities/Natural Resources	\$ 726,415	\$ 691,917	\$ 34,498	4.99%
Sub-Total Public Works	\$ 6,023,590	\$ 5,952,006	\$ 71,584	1.20%
<u>Health & Human Services:</u>				
Neighborhood Bus	\$ -	\$ 186,426	\$ (186,426)	-100.00%
Veterans Services	\$ 179,731	\$ 172,082	\$ 7,649	4.45%
Council Aging	\$ 289,885	\$ 282,304	\$ 7,581	2.69%
Bd Health	\$ 428,007	\$ 416,432	\$ 11,575	2.78%
Parks & Recreation	\$ 569,981	\$ 556,500	\$ 13,481	2.42%
Human Services	\$ 52,805	\$ 51,268	\$ 1,537	3.00%
Sub-Total Health & Human Services	\$ 1,520,409	\$ 1,665,012	\$ (144,603)	-8.68%
<u>Public Libraries:</u>				
Morse Library	\$ 1,780,357	\$ 1,722,676	\$ 57,681	3.35%
Bacon Free Library	\$ 116,928	\$ 114,326	\$ 2,602	2.28%
Sub-Total Public Libraries	\$ 1,897,285	\$ 1,837,002	\$ 60,283	3.28%

General Government:

Town Report	\$	5,000	\$	4,000	\$	1,000	25.00%
Finance Committee	\$	12,402	\$	12,158	\$	245	2.01%
Personnel Board	\$	1,000	\$	1,000	\$	-	0.00%
Tn Administrator/Selectmen	\$	660,416	\$	688,237	\$	(27,821)	-4.04%
Comptroller	\$	321,700	\$	327,999	\$	(6,299)	-1.92%
Treasurer	\$	177,954	\$	175,406	\$	2,548	1.45%
Collector	\$	319,863	\$	314,908	\$	4,955	1.57%
Assessing	\$	440,843	\$	429,862	\$	10,981	2.55%
Legal Services	\$	251,500	\$	251,500	\$	-	0.00%
Town Clerk	\$	205,062	\$	223,891	\$	(18,829)	-8.41%
Registrar Voters	\$	65,803	\$	49,987	\$	15,816	31.64%
Community Development	\$	682,033	\$	662,169	\$	19,864	3.00%
Sealer Weights & Measures	\$	15,235	\$	14,818	\$	417	2.81%
Parking Enforcement	\$	125,555	\$	121,982	\$	3,573	2.93%
Information Technology	\$	915,090	\$	877,430	\$	37,660	4.29%
Sub-Total General Government	\$	4,199,456	\$	4,155,346	\$	44,110	1.06%

Commissions:

Historic Commission	\$	1,000	\$	1,000	\$	-	0.00%
Historic District Commission	\$	500	\$	500	\$	-	0.00%
Natick Cultural Arts	\$	700	\$	700	\$	-	0.00%
Commission on Disabilities	\$	1,810	\$	1,810	\$	-	0.00%
Sub-Total Commissions	\$	4,010	\$	4,010	\$	-	0.00%

Sub-Total Municipal Depts.	\$	25,466,493	\$	24,955,176	\$	511,317	2.05%
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Unclassified:

Reserve Fund	\$	300,000	\$	300,000	\$	-	0.00%
Property & Liability Ins	\$	496,150	\$	459,400	\$	36,750	8.00%
Employee Fringe Benefits	\$	13,549,592	\$	12,634,283	\$	915,309	7.24%
Debt & Interest	\$	7,269,978	\$	7,239,698	\$	30,280	0.42%
Non Contributory Pensions	\$	128,082	\$	145,109	\$	(17,027)	-11.73%
Contributory Retirement	\$	5,489,427	\$	5,254,279	\$	235,148	4.48%
General Government Energy	\$	1,406,684	\$	1,320,830	\$	85,854	6.50%
Sub-Total Unclassified	\$	28,639,913	\$	27,353,599	\$	1,286,314	4.70%

Grand Total - Operating	\$	98,321,950	\$	94,441,772	\$	3,880,178	4.11%
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Enterprise Funds:Sassamon Trace Golf Course

Operating Expense	\$	617,377	\$	618,528	\$	(1,151)	-0.19%
Golf Budgetary Reserves	\$	20,000	\$	-	\$	20,000	100.00%
Employee Benefits	\$	52,481	\$	37,282	\$	15,199	40.77%
Debt Service	\$	321,299	\$	329,536	\$	(8,237)	-2.50%
Sub-Total Golf Course	\$	1,011,157	\$	985,346	\$	25,811	2.62%

Water & Sewer Enterprise:

Sanitary Sewer Collection	\$	4,933,877	\$	5,416,615	\$	(482,738)	-8.91%
Water Supply & Distribution	\$	1,930,055	\$	1,774,209	\$	155,846	8.78%
Water & Sewer Debt Service	\$	2,462,563	\$	1,906,070	\$	556,493	29.20%
Water & Sewer Employee Fringe	\$	678,303	\$	634,703	\$	43,600	6.87%
Utility Billing	\$	217,262	\$	217,310	\$	(48)	-0.02%
Reserve Fund - Wat/Sew	\$	200,000	\$	200,000	\$	-	0.00%
Sub -Total Water & Sewer	\$	10,422,060	\$	10,148,907	\$	273,153	2.69%

Grand Total - Enterprise	\$	11,433,217	\$	11,134,252	\$	298,965	2.69%
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Unclassified:

Reserve Fund	\$	300,000	\$	300,000	\$	-	0.00%
Property & Liability Ins	\$	496,150	\$	459,400	\$	36,750	8.00%
Employee Fringe Benefits	\$	13,549,592	\$	12,634,283	\$	915,309	7.24%
Debt & Interest	\$	7,269,978	\$	7,239,698	\$	30,280	0.42%
Non Contributory Pensions	\$	128,082	\$	145,109	\$	(17,027)	-11.73%
Contributory Retirement	\$	5,489,427	\$	5,254,279	\$	235,148	4.48%
General Government Energy	\$	1,406,684	\$	1,320,830	\$	85,854	6.50%
Sub-Total Unclassified	\$	28,639,913	\$	27,353,599	\$	1,286,314	4.70%

Grand Total - Operating	\$	98,321,950	\$	94,441,772	\$	3,880,178	4.11%
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Enterprise Funds:Sassamon Trace Golf Course

Operating Expense	\$	617,377	\$	618,528	\$	(1,151)	-0.19%
Golf Budgetary Reserves	\$	20,000	\$	-	\$	20,000	100.00%
Employee Benefits	\$	52,481	\$	37,282	\$	15,199	40.77%
Debt Service	\$	321,299	\$	329,536	\$	(8,237)	-2.50%
Sub-Total Golf Course	\$	1,011,157	\$	985,346	\$	25,811	2.62%

Water & Sewer Enterprise:

Sanitary Sewer Collection	\$	4,933,877	\$	5,416,615	\$	(482,738)	-8.91%
Water Supply & Distribution	\$	1,930,055	\$	1,774,209	\$	155,846	8.78%
Water & Sewer Debt Service	\$	2,462,563	\$	1,906,070	\$	556,493	29.20%
Water & Sewer Employee Fringe	\$	678,303	\$	634,703	\$	43,600	6.87%
Utility Billing	\$	217,262	\$	217,310	\$	(48)	-0.02%
Reserve Fund - Wat/Sew	\$	200,000	\$	200,000	\$	-	0.00%
Sub -Total Water & Sewer	\$	10,422,060	\$	10,148,907	\$	273,153	2.69%

Grand Total - Enterprise	\$	11,433,217	\$	11,134,252	\$	298,965	2.69%
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DISCUSSION OF PAST AND PLANNED OPPORTUNITIES FOR
IMPROVED EFFICIENCIES AND COST EFFECTIVENESS WITHIN THE
GOVERNMENT OPERATIONS

Municipal Government should be in a continuous process of self-assessment to ensure that, in our delivery of programs and services, efficiency and cost-effectiveness are the standards throughout. Such efforts are particularly essential in times of fiscal challenge. It is incumbent upon municipal leaders to search out and be responsive to opportunities to institute cost saving measures, maximize generation of revenue and institute improvements in the delivery of services. Below are examples of recent efforts in this regard, as well as areas where we have determined that further investigation is warranted.

Recent Efforts:

1. Adoption of "Section 18." After an extensive public information process, the Administration asked Town Meeting to adopt MGL Chapter 32B, section 18, thus requiring that municipal retirees who are Medicare eligible to enroll in Medicare and a town-sponsored Medicare supplement health care plan. Adoption of Section 18 is financially beneficial in that the direct cost to the Town for the Medicare component of the health care coverage (Part B) plus the supplement program is substantially less than the cost of the "active employee" health care program. In addition, shifting the retirees to the Medicare program reduces the Town's Other Post Employment Benefits (OPEB) liability related to GASB45. Actuarial estimates of GASB45/OPEB liability are very large. Moving all Medicare eligible retirees to Senior Plans will reduce the estimated liability and future costs of retiree benefits. Our estimated savings in FY 09 due to the adoption of Section 18 is estimated at \$600,000.
2. Outsourcing of Payroll services. The Comptroller recently conducted a cost-benefit analysis to determine the potential for savings if our payroll services were outsourced to a professional payroll company, however he determined that a savings would not result. Should circumstances change in the future, this area may warrant further review.
3. Energy efficiencies. A comprehensive Energy Report was issued in June 2007 and will be updated periodically. The full report, summarizing our recent and ongoing efforts to conserve energy and minimize associated costs, can be found on line at www.natickma.gov under the Town Administrator's web page, or a copy may be obtained at the Office of the Town Administrator. Examples of recent efforts include replacing old fluorescent lamps with high efficiency super saver lamps and ballasts, with N-Star paying 80% of the replacement cost; street lights and traffic signals use the most efficient light sources in the market place; utilization of various bidding strategies to get the best price available from suppliers of electricity, vehicle fuel and heating fuel; working with EPA to develop a plan to reduce energy use and costs at our water treatment facilities; participating in the ISO-NE Demand Response Program, through which we anticipate payments of at least \$14,000 annually by cutting back on electricity use in certain buildings and relying on emergency generators to light and cool the

- buildings during peak demand periods; participating in the EPA Energy Star Program and the associated Municipal Challenge Program through which opportunities to conserve energy are continuously identified and explored.
4. Increase in the fee for new sewer connections. The Board of Selectmen, acting as Water and Sewer Commissioners, adopted a new fee for sewer connection in response to DEP mandates to reduce inflow and infiltration (I&I) into the sewer system. I&I occurs when groundwater or rainfall enter the sewer system through cracks in the pipe or leaky joints. I&I costs the Town money because it adds to the volume being pumped through the Town's pumping stations and the Town is charged by the MWRA for the total flow. DEP established criteria for removing I&I, essentially requiring that for every new 1 gallon of discharge (associated with new development), the developer had to pay the cost of or actually remove 4 gallons of discharge. Accordingly, after holding a public hearing, the Board approved a fee for new connections to the sewer system equal to the cost of removing 4 gallons of sewage for every 1 gallon added thus shifting the cost of this significant capital obligation to those adding to the system.
 5. An ambulance fee policy was adopted by the Board of Selectmen, assuring a consistent and aggressive approach to the collection of these fees, and providing a standard by which those fees determined to be uncollectible (e.g. the maximum allowable amount has been received by the applicable insurer) may be written off.
 6. Town Meeting approved funding for a Comprehensive Fee Analysis. This review will (1) identify areas, if any, where fees could be charged but are not, (2) compare our fees to statutory limitations and fees charged in comparison communities and (3) recommend adjustments where warranted. The intent is to maximize this revenue source.
 7. Our participation in the Metrowest Regional Transit Authority has produced significant immediate savings coupled with increased mobility opportunities for our residents. The RTA has the potential to provide significantly improved service while saving money.
 8. Audit of Natick Collection permit fees. We have advised the developer of the Natick Collection that, due to the complexity of the project, the Town of Natick will be commissioning an independent audit subsequent to receipt of the Affidavit for Estimated Cost of Construction to ensure that we have captured all applicable permit fees.

Planned investigations:

1. We have initiated discussion with the Acting Superintendent of Schools, and plan to continue these discussions once the new Superintendent is on board, regarding opportunities to consolidate programs or services between the Town and the Schools. Examples include, but are not limited to library services, human resources functions, and building maintenance.
2. We have also initiated discussions with the DPW and the Recreation and Parks Department regarding the potential and benefits of reorganizing these two departments such that the Land, Facilities and Natural Resources division of the DPW would instead be under the Recreation and Parks Department. We believe that this concept may provide improved efficiencies and effectiveness of

operations by putting the maintenance of the fields within the same department as the operation and use of the fields. There are, obviously, a number of challenges associated with this concept, but it appears initially to be worth exploration. There may be opportunities for cost savings as well if the field maintenance personnel can be tasked with maintenance of the golf course, thus allowing us to not contract out for that service.

3. We have begun exploration of the new opportunity to join the states Group Insurance Commission, the state agency that buys and administers health insurance for state workers. Recent legislation allows municipalities to join the GIC, but requires cities and towns to “coalition bargain” with our unions to determine conditions associated with joining. The GIC may not be right for every community, but it is absolutely an opportunity that must be explored thoroughly. We have initiated discussion of this option with the Insurance Advisory Committee, a committee that includes union and retiree representation.
4. Framingham’s recent loss of their Veterans’ Services Officer prompted discussions between our communities regarding the formation of a Veterans’ Services District. It was agreed that, given the size and need in each of our communities this would not necessarily be cost effective. We did agree, however, that if there are smaller communities with less demand, it may make sense to form a district. We intend to pursue these discussions with area communities.
5. A graduate student working on her Masters in Public Administration at Northeastern University is presently conducting an analysis of opportunities to regionalize fire services and/or the use of equipment. She is nearing the end of the process of interviewing and researching and will be working on the final report in the coming weeks. We look forward to exploring any opportunities she identifies.
6. Public Works departments state-wide are pursuing legislation to allow them to formally provide a system of mutual aid to neighboring communities, similar to the arrangement between fire departments. In the case of public works mutual aid, however, the receiving community would reimburse the providing community. We are currently reviewing the two different legislative proposals in this regard to determine which would provide the greater benefit to our community, as one is being promoted by the public works professionals, but the other is being promoted by the Massachusetts Municipal Association.
7. Staff and members of the Board of Selectmen continue to work with Natick's Retirement Board towards improvement of returns on investment.
8. We continue to work on the Capital Planning and Capital Budgeting processes to improve transparency while communicating the vast number of capital improvement projects and capital equipment items that are not funded in a timely manner. Improved planning and budgeting will result in more cost-effective funding of our investments.

This is not by any means a complete list of efforts that can and should be undertaken to ensure that we are maximizing the effective use of all available revenues to deliver the highest quality municipal services. We will continue to explore opportunities and welcome new ideas.